PENSIONS
INVESTMENTS
LIFE INSURANCE

Irish Life

This is not a customer document and is intended for Financial Advisers only

BUDGET 2017

ADVISORY SERVICES UPDATE

This document provides commentary and summary of the main changes announced in the Budget Tuesday 11th October 2016.

Irish Budget Economic Commentary
By Lenny McLoughlin, Economist, Irish Life Investment Managers

The economic backdrop to the 2017 budget, while still positive, is nevertheless somewhat different to that which prevailed prior to other budgets in recent years. The pace of growth has slowed, impacted by both a slower global economic backdrop and uncertainty related to the UK's decision to leave the EU although growth remains robust both in absolute and relative terms compared to other developed economies and those in the Eurozone. Despite the slowdown, growth remains well underpinned with unemployment having fallen to 7.9% and numbers employed rising to 2.015m, the highest since 2009 while retail sales most recently were rising 5.2% y/y.

Headline GDP in 2016 has been distorted by the revisions to 2015 data which resulted in GDP for the year being revised up from 7.8% to 26.3% due to a number of exceptional factors relating to a small number of large multinational firms which had limited impact on actual activity in the Irish economy. Partly as a result of these revisions, growth as shown by the official GDP release has slowed in 2016 to 0.6% q/q or 4.1% y/y in Q2. Within the Q2 GDP figures, total domestic demand grew 9.1% q/q led by capital formation which rose 38.9% q/q while personal spending surprisingly fell -0.5% q/q which appeared at odds with the strong retail sales releases. Government spending rose 0.6% q/q.

Given the above, in the pre-budget growth projections provided by the Department of Finance in early October on which the budget was based there were a number of modest revisions to growth forecasts. GDP growth was forecast at 4.2% in 2016, down from 4.9% at the time of the Stability Programme Update in April with personal consumption and net exports the main source of the revisions. Growth in 2017 was forecast at 3.5% from 3.9% previously and included a 0.5% reduction to account for Brexit related uncertainty with the downgrade mainly centred on investment and net exports. The Department of Finance also highlighted other issues impacting the growth outlook including relatively subdued growth in many developed economies and identified the risks to its forecasts as being tilted to the downside.

In the lead up to the budget the Minister for Finance had suggested the fiscal space available in respect of the 2017 budget was €1.2bn and indicated an intention to split this 2:1 between public spending increases and tax reductions. In total between 2017 and 2021 the fiscal space is estimated to be €11.3bn and the stated intention is to use €1bn of this pa from 2019 onwards to establish a 'Rainy Day' fund once medium term budgetary objectives have been met.

Ahead of the budget, the fiscal position to the end of September was ahead of target by approx. €871m although most of the positive surprise was generated in earlier months with some slippage versus monthly targets, particularly in tax receipts, in more recent months. Year to date, revenues were 0.9% ahead of target with tax revenues 1.5% ahead, mainly due to corporate tax. Expenditure was running -1.0% below budget with overruns in health offset by underspending elsewhere.
The 2017 budget announced today was slightly bigger than expected with €1.3bn of expansionary measures announced. Within this there were €500m of tax cuts partly offset by €195m of tax increases and €1bn of additional spending resulting in a 3:1 split in favour of spending.

The main tax reduction related to the lowering of the three lower rates of the Universal Social Charge by 0.5% to 0.5%, 2.5% and 5% with the ceiling on the lower band increased from €18,668 to €18,772. DIRT is to be reduced by 2% each year for four years, falling from 41% to 33% in 2020. The threshold for capital acquisitions tax on inheritances/gifts from parents to children was increased by €30,000 to €310,000. The only tax increase announced related to a 50 cent increase in excise duty on a pack of 20 cigarettes with a pro rata increase on other tobacco products.

A number of measures were announced to assist sectors specifically impacted by Brexit such as the maintenance of the low 9% VAT rate on tourism and the provision of low cost loans to farmers. Housing received a number of supports including the introduction of a Help to Buy Scheme with first time buyers qualifying for a rebate of up to 5% on the value of a home up to €600,000 which will be capped at €20,000. Mortgage interest relief is to be extended from December 2017 to 2020 while mortgage interest relief for the buy to let sector was increased from 75% to 80% with a planned 5% increase each year until it reaches 100%.

On the spending side, approx. €800m of the planned €1bn increase is targeted at current expenditure. The Department of Health is to receive an additional €266m, €290m is being made available to partially restore civil and public servant salaries, 800 additional gardai and 2,400 teachers are to be recruited. There will be an additional €5 per week on the state pension and all other weekly social welfare payments, while an affordable childcare scheme is also being introduced.

Overall, the government estimated that the fiscal deficit will fall to 0.4% of GDP in 2017, 0.3% higher than expected prior to the measures announced in the budget. The government's intention is to have a balanced budget by 2018. Debt/GDP is estimated to fall to 76% by the end of 2016 with a target of 45% by the mid-2020's, below the 60% requirement under the Stability and Growth Pact.

Life, Savings & Investments Overview

Minister Noonan's Budget 2017 held very few surprises. The increase in the tax free Group A threshold for gifts and inheritances from parents to children was widely expected, and while there were also minor increases to the two other tax free thresholds, there were no major changes announced to any of the 'reliefs' available from inheritance and gift tax.

Capital Acquisitions Tax

The changes to the tax free thresholds are as follows

Changes to the three tax-free thresholds:

A. The Group A lifetime tax-free threshold applying to gifts and inheritances from parents to children is being raised from €280,000 to €310,000,

B. The Group B lifetime tax-free threshold applying to gifts and inheritances made to parents, siblings, nieces, nephews or grandchildren is being raised from €30,150 to €32,500.

C. The Group C lifetime tax-free threshold applying to gifts and inheritances made to all others (except spouses and civil partners who are exempt) is being raised from €15,075 to €16,250.

Caitriona Gaffney
Life Manager

Phone: 01 856 3160
Caitriona.Gaffney@irishlife.ie

Edel Hughes
Life Specialist

Phone: 01 856 3150
Edel.Hughes@irishlife.ie

Below is an illustration of the impact of the CAT changes on gifts or inheritances from parents to children

	2016	**2017**
Tax Rate	33%	33%
Group A Threshold	€280,000	€310,000
Inheritance Amount	**Inheritance Tax Liability**	
€500,000	€72,600	€62,700
€1,000,000	€237,600	€227,700
€1,500,000	€402,600	€392,700

While Minister Noonan did specifically mention the transfer of the family home in his speech when announcing the CAT changes, there was no change made in the Budget to Family Home Relief.

Nor was there a change announced to the current CAT rate of 33%.

We will, of course, be reviewing the Finance Bill when it is published to see if any other changes are proposed to the CAT legislation.

Tax on Life assurance savings and investment contracts

DIRT

A reduced rate of Deposit Interest Retention Tax (DIRT) of 39% was announced with provision to be made in legislation for further reductions of 2% per annum over the next 4 years until it reaches 33% in 2020.

No change, however, was announced today to the exit tax rates, either personal or corporate, which apply to life assurance savings and investment products. Thus the exit tax rate for personal investors is still 41% and the rate for corporate investors is unchanged at 25%.

We will of course be reviewing the Finance Bill when it is published to see if any changes of relevance are made in this area.

Pensions Overview

In previous Budget speeches Minister Noonan has stated that the government believes it is in peoples' best interest to invest in pensions. In Budget 2017 the government has not announced any changes in the supports for private pension provision and has not announced any changes in how pensions operate.

Patrick O'Shea
Pension Manager

Phone: 01 856 3166
Patrick.OShea@irishlife.ie

Key Points on Pensions

- No change to the marginal rate income tax relief on pension contributions
- No change to the tax exemption that applies on pension investment income
- No change to retirement lump sum options or €200,000 tax free lump sum threshold
- No change to the AMRF limit of €63,500 or guaranteed income requirement of €12,700

The Finance Bill will follow in the next couple of weeks and we will be monitoring this in case there are any technical changes, and if there are then we will of course let you know.

Marie Ann Reidy
Pension Specialist

Phone: 01 856 3171
MarieAnn.Reidy@irishlife.ie

Future Developments for Pensions

Minister for Social Protection, Leo Varadkar, commenting recently on pensions has pointed out that in recent years private pension coverage has dropped from 51% to 47%. The Minister referenced the Universal Retirement Savings Group, saying that it's a scheme that would need to be phased in, but there may be an opportunity in the near future in the context of pay increases happening again across the economy. The introduction of the scheme would be the most fundamental pension reform in a generation, and it is vital that consensus be achieved with all stakeholders.

In this context the Pensions Authority have recently undertaken a consultation on the reform and simplification of pensions. Reform and simplification of the current system is seen as an important step in facilitating any initiatives to expand private pension coverage.

The proposals outlined by the Pensions Authority as part of the consultation are not finalised. Some of the key proposals are, higher qualification standards for trustees, a new occupational pension scheme authorisation process, closer supervision of pension schemes by the regulators, rationalisation of pension schemes by potentially not allowing new Personal Pensions or Personal Retirement Bonds, and the increased use of multi-employer schemes / Master Trusts as an alternative to one-member schemes. In looking to raise the governance standards of pensions, it is important to be aware of the risk of creating additional costs and barriers. It is also important to be conscious of client's current pension plans and the reasons why they are saving into their pension. While there is a need to be conscious of these risks, Irish Life believe there is an opportunity to work constructively with the Pensions Authority over the next two years to achieve a balanced outcome.

Many of the current rules were designed for Defined Benefit schemes and working patterns where people typically stayed for long periods with one employer before retiring at age 65. The move to Defined Contribution schemes and more flexible working patterns means we have rules that are no longer fit for purpose. Irish Life believes that pension planning benefits from certainty, and the piecemeal reviews and changes we have seen in the past don't provide this. A system-wide review with the engagement of all stakeholders has the best chance of providing a stable pensions environment in the longer term, to the benefit of clients and advisers.

Social Welfare

The state pension will rise by €5 per week. Once this increase happens in March next year, this will bring the state pension to €12,391. In the context of the €12,700 guaranteed income requirement before being eligible for an ARF, this leaves a shortfall of €309 that a client would need in other pension income. It would cost approximately €8,800 to purchase an annuity of €309 at current annuity rates (based level single life pension for male age 66 at current annuity rate of 3.97%).

Other Items of Interest

Compliance Measures

Minister Noonan announced plans to tackle offshore tax evasion and increase resources available to Revenue to tackle non-compliance. The upcoming Finance Bill will place restrictions on offshore tax defaulters using the voluntary disclosure regime from May 2017. A strict liability criminal offence will also be introduced to facilitate the prosecution of serious cases of offshore tax evasion. In addition to this Revenue will have additional staff working on audit and investigation activities with the aim of a direct increase in tax and duty from compliance investigations.

Help to Buy for First Time House Buyers

An income tax rebate incentive is being introduced to assist first time buyers of new homes to help fund their deposit requirement. It will consist of a rebate of income tax paid over the previous four years up to 5% of the purchase price of up to €400,000. Where new homes are valued between €400,000 and €600,000 the maximum relief (i.e. €20,000) will continue to be available. This will apply to new build only and not to second hand house purchases. Applicants must take out a mortgage of at least 80% of the purchase price. This scheme will run until the end of 2019.

Invalidity Pension

The Invalidity Pension is being extended to self-employed PRSI contributors from December 2017.

Interest Relief – Rented Residential Property

An increase to 80% was announced to the amount of the deduction allowable for qualifying interest payments on monies borrowed to purchase, improve or repair residential rental property. This increase will apply to both new and existing mortgages.

Consultations

In his Budget speech Minister Noonan announced a number of public consultations which will be launched shortly. These include

PAYE Modernisation Consultation being launched by the Revenue Commissioners. The aim of this consultation is to

- help employees manage their tax affairs,
- reduce contact between employers and the Revenue.
- Reduce administration costs for employers and the Revenue
- Improve compliance
- Provide up to date information for policy makers

It is planned that PAYE Modernisation will be operational from 1 January 2019. More information on this consultation can be found on Revenue.ie

There is also a proposal for developing a new SME-focussed, share based incentive scheme which will be introduced in Budget 2018 next year.

And for those of us who have a sweet tooth ……...

a Sugar-Sweetened Drink Tax consultation is being launched today and running until 3 January 2017 with the aim of aligning the Irish sugar-sweetened drinks tax with the UK's proposal.

Income Tax, PRSI and other Information

Income Tax Rates	No Change
Standard Rate	20%
Higher Rate	40%

Standard Rate Bands	No Change
Single / Widowed	
No dependent children	€33,800
With dependent children	€37,800
Married – one income	€42,800
Married – two incomes	€42,800 + increase
Increase is the lower of €24,800 and income of lower earning spouse.	

Income Tax Credits	2017
Personal	
Single	€1,650
Married	€3,300
PAYE Credit	€1,650
Earned Income Credit (Self Employed)	**€950**
One Parent Family	€1,650
Age Allowance (single)	€245

Income Exemption Limits	No Change
Single / Widowed (aged 65+)	€18,000
Married (aged 65+)	€36,000

PRSI Rates	A1	S1
Employee		
All Income	4%	4%
(earnings less than €352pw exempt)		
Employer		
Income up to €19,552	8.5%	n/a
Income exceeding €19,553	10.75%	n/a

Universal Social Charge Rates from 1 January 2017	Employee	Self Employed
Income up to €12,012	**0.5%**	**0.5%**
Between €12,013 and **€18,772**	**2.5%**	**2.5%**
Between **€18,773** and €70,044	**5%**	**5%**
Between €70,045 and €100,000	8%	8%
Income in excess of €100,000	8%	11%
Total income less than €13,000 is exempt from the USC		
Full Medical Card Holders & Over 70s	Employee	Self Employed
Income up to €12,012	**0.5%**	**0.5%**
Income in excess of €12,013	**2.5%**	**2.5%**
However those with earnings greater than €60,000 will pay the normal USC rates		

Savings and Investment Tax	2017
DIRT	**39%**
Life Assurance Exit Tax – Personal plans	41%
Corporate owned	25%
Wrapper Products	60%

Social Welfare Benefits

For more information see www.welfare.ie

Social Welfare Benefits	March2017	2016
State Pension (Contributory)		
Personal Rate	**€238.30**	€233.30
Personal + Adult dependent (over 66)	**€451.80**	€442.30
Widow / Widowers (under 66)	**€198.50**	€193.50
State Pension (Non – Contributory)		
Personal Rate	**€227.00**	€222.00
Personal + Adult dependent under 66	**€377.00**	€368.70
Widow / Widowers under 66	**€193.00**	€188.00
Invalidity Pension		
Personal Rate (65 and under)	**€198.50**	€193.50
Personal + Adult dependent	**€340.20**	€331.60
Disability Allowance		
Personal Rate	**€193.00**	€188.00
Personal + Adult dependent	**€321.10**	€312.80
Jobseekers / Illness Benefit		
Personal Rate	**€193.00**	€188.00
Personal + Adult dependent	**€321.10**	€312.80
Jobseeker's Allowance		
18 to 24 years of age		
Personal Rate	**€102.70**	€100.00
Personal + Adult dependent	**€205.40**	€200.00
25 years of age		
Personal Rate	**€147.80**	€144.00
Personal + Adult dependent	**€275.90**	€268.80
26 years of age and over		
Personal Rate	**€193.00**	€188.00
Personal + Adult dependent	**€321.10**	€312.80
Increase for each dependent child	€29.80	€29.80
Where a person aged 18 to 24 has a dependent child the basic personal rate of €188 and not the reduced rate applies		

Child Benefit	2017	2016
Rate per child	€140.00	€140.00

Capital Acquisitions Tax from 12 October 2016	
Group A	**€310,000** (child)
Group B	**€32,500** (lineal ancestor/decedent, brother, sister or child of brother or sister
Group C	**€16,250** (Others)
The thresholds apply to all gifts and inheritances received since 5 December 1991.	
Tax Rate On all gifts / inheritances above thresholds	33%
Annual Gift Exemption	€3,000
The annual small gift exemption can be availed of regardless of the relationship between the disponer and the beneficiary. The exemption is limited to one gift per beneficiary from each disponer in a calendar year. It does not impact on the CAT Thresholds noted above.	